

The Implication of Technological Development on Stock Trading in the Stock Markets of Indonesia Stock Exchange

Arsyad Aldyan¹, Adi Sulistiyo², Pujiyono³

^{1,2,3}Universitas Sebelas Maret, Surakarta - Indonesia

arsyadaldyan69@gmail.com

Abstract-This article discusses the implication of technological development on stock trading in the stock markets of Indonesia Stock Exchange. Along with the technological development, the stock trading system in the stock market shows great development, for example the existence of online stock trading system which can be done remotely because it is facilitated by the development of technology and electronics. The stock trading in the capital market becomes easier with the online system. Besides that, the technological development also facilitates the investors to get information relating to stock trading in the stock market, and also the information of companies listing in the stock market. On the other hand, the technological development also brings negative impact to the stock trading in the stock market. The easier process of stocks transaction due to the technological development leads to more violations that happen in the stock trading within the stock market.

Keywords-Reciprocal: Stock Trading, Stock Market, Stock Exchange, Implication Of Technological

I. INTRODUCTION

The era of globalization leads to the development of technology. This development surely brings impact to important aspects such as economic and legal aspects. The Industrial Revolution 4.0 happens within the globalization era. This revolution strongly correlates to technological development such as the development of internet and electronic devices that support human life. Various also online sales and social media are also some other impacts of the Industrial Revolution 4.0. It also brings significant impact on the stock market and stock exchange.

A stock exchange is defined as "citadel of capital, the temple of values. It is the axe of which the whole financial structure of capitalist system turns. Literally, a stock exchange can be described as a place where securities (Bonds, Stock and shares of varying types are traded openly, and where one can purchase or sell any of such securities relatively easily [1]. A stock market can be a very sophisticated market place, where stocks and shares are the traded commodity. At the same time, it is central to the creation and development of a strong and competitive economy. It is a key to structural transformations in any economy; from traditional, rigid, insecure bank-based to a more flexible, more secure

economy that is immune to shocks, fluctuations and lack of investors' confidence [2].

As exchanges and markets become profit-seeking corporate entities, the issues of which firms should be allowed access to which markets and who should decide when that access is curtailed take on particular relevance [3]. The financial stock market facilitates higher investments and the allocation of capital, and indirectly the economic growth. Sometimes investors avoid investing directly to the companies because they cannot easily withdraw their money whenever they want [4]. Stock markets have developed and changed dramatically over the period of time where now investors have more trading opportunities, reengineered products, low transaction cost and improved liquidity [4]. Stock market gathers participations from all kinds of investors [5].

The surge of technological development has changed various aspects. It is also influential to the economics, for example creating new business activities like software, hardware, and other electronical systems that support business such as online trading system. These developments will bring positive impact to the economy of a country. On the other hand, the law needs to dynamically keep up with this advancement. In addition, the technological development also has significant impact on the stock trading system in the stock market. The implementation of securities trading, both in form of stock and bond, has been integrated through a system created with technological sophistication. Long ago, the stocks were printed on papers, it was also supported with electronic stock system which stored the data in the Indonesian Central Securities Depository to process the transaction. Besides bringing positive impact, the technological development also has negative impact on the stock trading in the capital market. This technological development can also trigger violations in the stock trading in the stock market.

II. RESEARCH METHOD

The type of research in this article is a normative research, which is supported by purposive approach. The sources and types of legal material used in this research are primary and secondary legal materials. The primary

legal materials consist of legislations relating to Stock Market, namely Law No. 8 of 1995 on Stock Market, The Ruling of The Stock Exchange Directors No. Kep-00113/BEI/12-2016, Rule No. II-A on Equity-Type Securities Trading, The Financial Service Authority Rule No. 7 /POJK.04/2018 on Report Submission Through Issuer or Public Company Electronic Reporting System. Meanwhile, the secondary legal materials are in form of legal materials relating to the sources of primary legal material, such as books and journals on stock market. This article aims to determine the implication of technological development on stock trading in the Indonesian Stock Exchange.

III. FINDINGS AND DISCUSSION

The Industrial Revolution 4.0. is closely related to technological development. This phenomenon will also bring impact on the economic system, particularly the stock market system, such as the integration of stock trading with online system, which can be done remotely with the support of technological and electronics advancement. Utilizing online system in the stock market will surely facilitate the stock trading. Moreover, it will also facilitate the investors to get information on the stock trading in the stock exchange, as well as information on the companies which are listing in the stock market.

The integrated stock and bond trading is made possible by the technological sophistication. Long ago, the stocks were printed on papers, it was also supported with electronic stock system which stored the data in the *Kustodian Sentral Efek Indonesia* (Indonesian Central Securities Depository) to process the transaction. The technological development will certainly bring positive impact on the stock trading in the stock market, in which it makes the transaction can be done remotely using online system and also leads to better storage of the data of the stockholders. In addition, the development of technology will also shorten the transaction process in the stock market. The proof of stock ownership can be accessed by logging in to the Indonesian Central Securities Depository and printing the data of the stocks.

One of the obligations of Issuers or companies listed on the Indonesia Stock Exchange is to apply the principle of information openness. This openness of information is made easier with the support of internet. The Financial Services Authority also issues The Financial Service Authority Rule No. 7 /POJK.04/2018 on Report Submission Through Issuer or Public Company Electronic Reporting System. In other words, the issuer or public companies are required to provide electronic reports relating to the company, both regarding the GMS (General Meeting of Shareholders), financial conditions, business activities, and other activities carried out by the company. This rule is a form of information openness that the public, especially investors should know. Inarguably, the technological development and the Financial Service Authority Rule bring positive impact to every investor,

since the openinformation on the financial statements and the business activity report can be accessed by internet. Those information are important for the investors to take investment steps.

The technological development will also foster the economic development of a country. On the other hand, this phenomenon will bring negative impact as well. The online stock trading provides a chance for violations to occurin the stock market. One example is the manipulation practice of Cornering the Market. The existence of online system and the development of technology facilitate the criminal to manipulate the stock as if it is currently active in trading. It will detriment other people and affect the reputation of Indonesian stock market in international trading. The outcome is that the investors, especially foreign investors, are reluctant to invest in Indonesian stock market and the country's economy will be affected. Such violation occurs due to the technological development, because the modern stock trading system can be done online. Thus, it makes the criminal easier to manipulate the stock market.

Manipulation has become an important issue for both developed and emerging stock markets since the very beginning [6]. Market manipulation has existed for as long as the markets. Compared to the primitive manipulation schemes in the early ages of the markets, their modern successors have evolved greatly to cope with ever stricter regulation and surveillance. Examples of trade-based manipulation include matched order transactions, wash sales, runs, collusion, market stabilization, and “marking the close” [7]. On the other hand, the most common practice of stock market manipulation is Cornering the Market.

Two seminal events in recent history brought the hard truths of new financial technology and market manipulation to the forefront of general public consciousness[8].The Internet has the power to rapidly disseminate financial information, including information that might be spread in an attempt to manipulate stock prices [9].Market manipulation is among the oldest and most harmful practices in global share markets. It sacrifices individual investors, erodes public confidence in market integrity and undermines market efficiency [10]. Stock market manipulation means illegitimate or illegal activities trying to influence the prices of stocks, hence diluting the legal definition of trading stocks [11]. Large uninformed traders with market power could manipulate prices to their advantage and generate profits at no risk. Profitable manipulators aimed to create ‘price momentum’ so that an increase in price caused by the manipulator’s trade at one date tended to increase prices at future dates. Jarrow also showed that profitable manipulation is possible where the manipulator corners the market[12].

In Indonesia, the stock market manipulation violates Article 91 and Article 92 of Law Number 8 of 1995 on

Stock Market and The Ruling of The Indonesian Stock Exchange Directors No. Kep-00071/BEI/11-2013, and Article II.9 of Rule No. II-A on Equity-Type Securities Trading. Besides stock market manipulation, insider trading is another violation that may occur in the stock trading. Insider trading is the practice of leaking information about companies that are still confidential and have not been announced to the public. Basically, this kind of violation brings bad impact to the companies' stock prices. The offender of insider trading aims to make profits by obtaining leaked information which have not been published even though the people in the company are prohibited from providing information to other parties outside the company. [13].

The main element of insider trading is to use insiders' information to conduct securities transactions in the stock market. The insiders' information may be related to important and relevant facts about phenomenon, event, or facts that can affect the price of securities on the stock exchange or decisions of investors, prospective investors, or other parties. The information can directly or indirectly affect the stock price of a company which will lead to the stock price fluctuations in the stock market. Insider Trading is done in order to reap huge profits. The practice of insider trading is an economic crime in capital market sector. The offender of insider training can be imposed to punishment as referred to in Article 104 Law No. 8 of 1995 on Stock Market.

Another example of crime that occurs in Indonesia Stock Exchange is fraud. The fraud in the stock market, as explained by Law No. 8 of 1995 on Stock Market, may include the fraud committed with the help of a prospectus or in the securities trading in the stock exchange. The fraud can also be done to the securities listed in the stock exchange or traded outside the stock exchange. The last statement is aimed to anticipate that there are securities traded outside the stock exchange (such as the securities traded using the "pink sheets" in the USA). Article 90 paragraph 3 Law No. 8 of 1995 on Stock Market regulates the false statements or not uncovering material facts. It is aimed not only to prevent rumors that often happen in the stock exchange, but also to guarantee that every information and material fact delivered is correct. These obligations are intended to provide opportunities for investors to decide to buy, sell, or hold the securities because the decision for this investment is always carried out based on the right and correct information concerning the effect.

On the stock floor, the false statements can arise from the exchange members, investors and people in the issuer. This kind of violation, based on Article 90 paragraph 3 Law No. 8 of 1995 on Stock Market, can be classified as a fraud concerning the openness principles, namely: Making false statements about facts or eliminating material facts that make the statements misleading; In relation to stock trading; Having intention to mislead; and, Causing losses. The stock market fraud is also facilitated

by technological development, where a person can give false information to other investors or spread false rumors very quickly. Thus, it influences other investors' decisions when trading stock in the stock market.

The criminal provision for the violator of stock trading is regulated in Article 104 Law No. 8 of 1995 on Stock Market. The article stated: Anyone that violates the provisions referred to in Article 90, Article 91, Article 92, Article 93, Article 95, Article 96, Article 97 paragraph (1) and Article 98 will be imposed to imprisonment for a maximum of 10 (ten) years and a maximum fine of IDR 15.000.000.000, 00 (Fifteen billion rupiah). The existence of the law should facilitate the law enforcement to give detriment effect to the violators of stock market and to create good and responsible stock trading in the stock market that are in accordance with applicable regulations.

This technological development also affects the development of law, for example the Financial Service Authority as the institution that supervise the stock market, and the Indonesia Stock Exchange which issue several regulations related to the technological development. Those regulations are The Ruling of The Indonesian Stock Exchange Directors No. Kep-00399/BEI/11-2012 which came into force on January 2nd, 2013. This ruling was then amended by the Ruling of The Indonesian Stock Exchange Directors No. Kep-00071/BEI/11-2013. In addition, there are also Rule No. II-A on Equity-Type Securities Trading and The Financial Service Authority Rule No. 7 /POJK.04/2018 on Report Submission Through Issuer or Public Company Electronic Reporting System.

The existence of technological development brings particular impact on the stock trading in the stock market. The rise of violations in stock trading in the capital market is one of the negative impacts that the technological development brings to stock market. Due to the easy access provided by online trading system, the criminals are easier to manipulate the stock market. In addition, there are also problems regarding law enforcement to fight violations in the stock trading within the stock market.

The problems of law enforcement occur particularly when verifying the violations in the stock trading, because the system the code of securities company, in which the company act as an intermediary for the stock trading in the stock market. The system does not use code or name of the investor, so it is difficult to find who the violator is, especially when dealing with the case of stock trading manipulation. The development of technology should also make the stock trading better and easier. In the case of manipulation, the trading indicator should not only mention the name of the securities company but the name of the investor as well. Therefore, when a manipulation of stock trading occurs, the offender can be identified so that the law enforcement can work well since the violations in stock trading are basically crimes. This violation of stock

trading in the capital market is greatly facilitated by technological development, in which the criminal can manipulate the market from any place by the support of computer, laptop, cellphone, or internet. [14].

IV. CONCLUSION

The technological development brings impact on the stock trading in the Indonesian Stock Exchange. The positive impacts are the easier stock trading process with the support of online system, and easier access to information of the listed companies. Those impacts lead to the facilitation of investors in taking investment steps. On the other hand, the technological development also brings negative impact, such as violations in the stock trading due to the technological advancement. The technological development also influences law development that correlates to stock trading in the stock market, such as The Ruling of The Indonesian Stock Exchange Directors No.Kep-00071/BEI/11-2013, Rule No. II-A on Equity-Type Securities Trading, and The Financial Service Authority Rule No. 7 /POJK.04/2018 on Report Submission Through Issuer or Public Company Electronic Reporting System.

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